

MEMORANDUM



TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

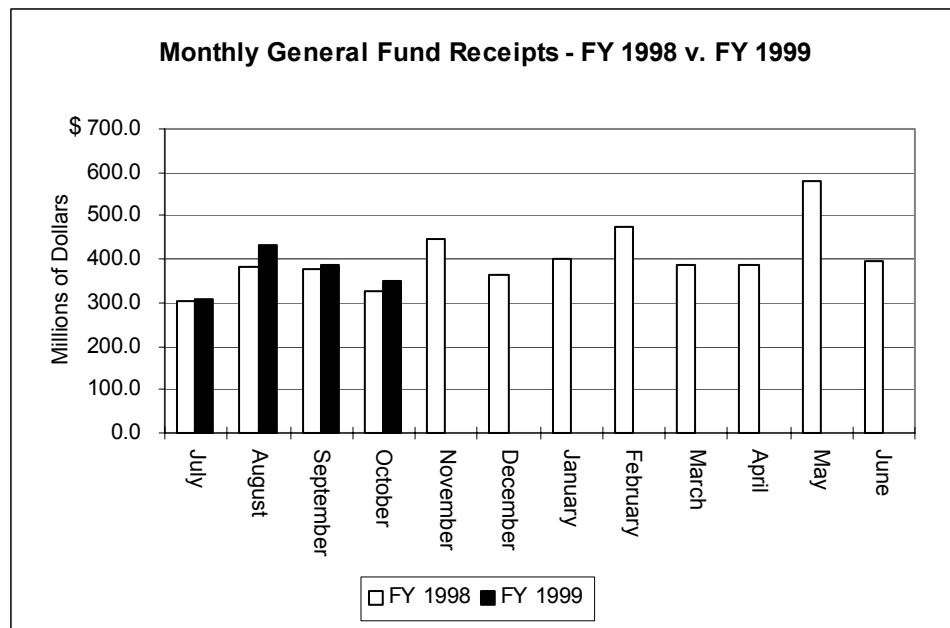
FROM: Dennis C. Prouty

DATE: October 1, 1998

General Fund Receipts Through September 30, 1998

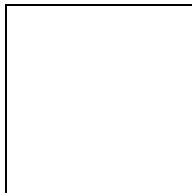
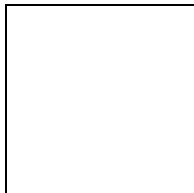
The attached spreadsheet represents total FY 1999 General Fund receipts, with comparable figures for FY 1998. These can be compared to the latest FY 1999 estimate (\$4.865 billion) set by the Revenue Estimating Conference (REC) on September 18, 1998. The estimate represents an increase of \$34.3 million (0.7%) compared to FY 1998. Receipts for FY 1998 were 3.9% and did not meet the REC estimate of 4.3%.

The FY 1999 REC estimate now includes all adjustments for the bills passing the 1998 General Assembly. The net effect of these bills was a reduction in FY 1999 General Fund revenues of approximately \$139.2 million. The largest of these is the Omnibus Tax Bill (\$85.6 million) which increased the income tax personal exemption, expanded the State capital gains exclusion, raised the pension income exclusion, expanded the tuition tax credit, provided a sales tax exemption for hospitals, and increased the Elderly and Disabled Tax Credit.



FY 1999 Compared to FY 1998

Fiscal Year 1999 revenue growth increased by \$51.7 million (4.9%) compared to FY 1998. This is above the current REC estimate of 0.7% for FY 1999 primarily due to a timing effect from sales tax receipts.



Gross personal income tax revenues received in September were \$8.1 million (4.6%) less than September 1997. Although FY 1998 withholding payments exhibited strong growth, the effect of the 10.0% income tax cut can clearly be seen in FY 1999 withholding tax receipts. The September growth rate was negative, with withholding payments decreasing by 3.4% compared to September 1997. Year-to-date withholding receipts are \$10.8 million (2.6%) below the FY 1998 level. This trend is expected to continue through the first seven months of FY 1999, until the full year's effect of the 10.0% income tax cut is experienced.

Estimate payments declined in September, posting a loss of \$2.3 million (5.8%) compared to September 1997. Year-to-date growth in estimate payments stands at \$13.0 million (19.6%) due to exceptionally strong July growth. Estimate payments are expected to moderate after the first of the year because of the recent losses in the stock market and the strong growth experienced in January 1998. Year-to-date gains in estimate payments can be attributed to both the strong year in the stock market and the federal capital gains tax rate change, however this trend is not expected to continue through the remainder of FY 1999.

The REC FY 1999 income tax estimate of \$2.342 billion represents a projected increase of 2.4% compared to FY 1998.

Sales tax receipts in September increased above last year's level by \$6.8 million (6.7%). Year-to-date growth in sales tax stands at \$48.2 million (15.7%) compared to FY 1998. A majority of the annual gain is due to the change in the method of local option tax payments. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. Because of passing the old quarterly payment date in August 1997, August 1998 receipts are approximately \$31.7 million greater than otherwise would be the case. This timing factor explains most of the year-to-date growth in sales tax and overall revenues. The REC estimate for FY 1999 sales tax receipts is \$1.321 billion, which represents an increase of 3.9% compared to FY 1998.

Corporate income tax receipts in September were \$349,000 (0.9%) lower than September 1997. On a dollar basis, return payments were the primary cause of negative growth for the month. Return payments received in September were \$1.1 million (25.0%) less than September 1997. Year-to-date corporate income tax payments are \$54,000 (0.0%) below the FY 1998 level.

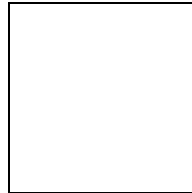
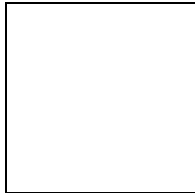
The REC projected FY 1999 corporate income tax receipts would total \$285.1 million, a decrease of \$5.6 million (1.9%) compared to FY 1998.

Racing and gaming receipts in September were \$1.6 million (15.1%) greater than September 1997. All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund because there is little doubt that receipts will exceed the \$60.0 million threshold. The REC estimated that \$85.4 million from this source would be deposited to the Infrastructure Account in FY 1999.

Status of the Economy

The seasonally adjusted percent unemployed for the State in August remained unchanged from the 2.5% rate in July. The unemployment rate a year ago was 2.6%. Iowa's total August employment registered 1,531,300, up from July's level of 1,527,000. The number of unemployed persons in Iowa stood at 39,900 in August, which is up from the July's level of 39,700. The U.S. unemployment rate remained unchanged in August at 4.5%.

Consumer prices in August increased 0.1%. The Consumer Price Index (CPI-U) through August 1998 was 163.4 (1983=100), which is 1.6% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through August 1998.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

| GENERAL FUND RECEIPTS - FY 1999 vs. FY 1998 | | | | | | ESTIMATED GENERAL FUND RECEIPTS in millions of dollars | | | |
|--|------------|------------|--------------|----------|-----------|---|------------|----------|--------|
| July 1, 1998, through September 30, 1998, in millions of dollars | | | | | | FY 98 Actual Compared to FY 99 REC Estimate | | | |
| | FY 1998 | FY 1999 | Year to Date | | September | Actual | Estimate | % CHANGE | |
| | | | | % CHANGE | % CHANGE | FY 1998 | FY 1999 | | |
| Personal Income Tax | \$ 484.6 | \$ 482.0 | | -0.5% | -4.6% | \$ 2,288.4 | \$ 2,342.2 | | 2.4% |
| Sales Tax | 306.9 | 355.1 | | 15.7% | 6.7% | 1,271.8 | 1,321.4 | | 3.9% |
| Use Tax | 59.7 | 62.7 | | 5.0% | 5.7% | 243.0 | 262.0 | | 7.8% |
| Corporate Income Tax | 57.1 | 57.1 | | 0.0% | -0.9% | 290.7 | 285.0 | | -2.0% |
| Inheritance Tax | 29.2 | 25.3 | | -13.4% | -23.1% | 109.8 | 66.6 | | -39.3% |
| Insurance Premium Tax | 0.0 | 0.4 | | n/m | n/m | 108.9 | 108.9 | | 0.0% |
| Cigarette Tax | 25.5 | 24.1 | | -5.5% | -8.7% | 94.6 | 97.0 | | 2.5% |
| Tobacco Tax | 1.6 | 1.8 | | 12.5% | 40.0% | 6.1 | 6.6 | | 8.2% |
| Beer Tax | 3.6 | 3.7 | | 2.8% | 9.1% | 12.7 | 12.9 | | 1.6% |
| Franchise Tax | 9.1 | 8.4 | | -7.7% | 1.8% | 36.4 | 38.5 | | 5.9% |
| Miscellaneous Tax | 3.2 | 5.5 | | 71.9% | 150.0% | 1.3 | 1.3 | | 3.1% |
| Total Special Taxes | \$ 980.5 | \$ 1,026.1 | | 4.7% | -0.3% | \$ 4,463.7 | \$ 4,542.5 | | 1.8% |
| Institutional Payments | 18.5 | 15.6 | | -15.7% | -54.8% | 70.2 | 41.8 | | -40.5% |
| Liquor Transfers: | | | | | | | | | |
| Profits | 6.0 | 6.0 | | 0.0% | 0.0% | 31.0 | 31.0 | | 0.0% |
| 7% Gross Revenue | 0.8 | 2.3 | | 187.5% | n/m | 9.0 | 9.0 | | 0.0% |
| Interest | 2.3 | 2.2 | | -4.3% | -37.5% | 30.6 | 24.0 | | -21.6% |
| Fees | 17.6 | 15.3 | | -13.1% | 0.0% | 65.4 | 63.2 | | -3.4% |
| Judicial Revenue | 6.9 | 6.8 | | -1.4% | 16.7% | 42.9 | 43.9 | | 2.2% |
| Miscellaneous Receipts | 9.9 | 13.1 | | 32.3% | -6.4% | 58.1 | 49.8 | | -14.3% |
| Racing and Gaming Receipts | 24.9 | 32.0 | | 28.5% | 15.1% | 60.0 | 60.0 | | 0.0% |
| TOTAL RECEIPTS | \$ 1,067.4 | \$ 1,119.4 | | 4.9% | 0.1% | \$ 4,830.9 | \$ 4,865.2 | | 0.7% |